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TO RUEHC/SECSTATE WASHDC 9517
INFO RUEHAC/AMEMBASSY ASUNCION 5906
RUEHBO/AMEMBASSY BOGOTA 3219
RUEHBR/AMEMBASSY BRASILIA 7067
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RUEHCV/AMEMBASSY CARACAS 1614
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RUEHME/AMEMBASSY MEXICO 1719
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UNCLAS LA PAZ 001564

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STATE FOR WHA/AND LPETRONI
ENERGY FOR CDAY AND SLADISLAW
COMMERCE FOR JANGLIN
TREASURY FOR SGOOCH

E.O. 12958: N/A
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [BL](#)
SUBJECT: HYDROCARBONS CHAMBER SAYS NEGOTIATIONS WILL
CONTINUE

REF: A. LA PAZ 1157

[1](#)B. LA PAZ 0083

[1](#)1. (SBU) Summary: Hydrocarbons Chamber representatives told the Ambassador June 7 that hydrocarbons companies would negotiate with GOB officials to determine the terms of their new contracts (ref A) until they felt they could no longer negotiate in good faith - at least until the expiration of the 180-day deadline imposed by the GOB's May 1 nationalization decree. After that, they said, companies would consider alternatives, including (as a last resort) international arbitration. Companies' ultimate decisions will likely be shaped by the GOB's flexibility in negotiating new tax rates, providing compensation for forcibly acquired shares, and defining firms' roles under the new contracts. End summary.

[1](#)2. (SBU) Hydrocarbons Chamber President Jose Magela and General Manager Raul Kieffer told the Ambassador June 7 that hydrocarbons companies would negotiate with GOB officials to determine the terms of their new contracts (ref A) until they felt they could no longer negotiate in good faith - at least until the expiration of the 180-day deadline imposed by the GOB's May 1 nationalization decree. Firms have said they are willing to talk but have argued that the decree contradicts earlier laws, noting that complying with it would force them to violate existing rules and regulations.

[1](#)3. (SBU) According to Magela and Kieffer, the absence of concrete government proposals and model contracts has delayed negotiations. Companies have said it may be possible to sign new contracts by the nationalization decree's November 1 deadline, but only if serious negotiations begin soon, and only if GOB officials and company executives agree on the

scope of proposed company audits and select a mutually acceptable auditor. While discussions continue, companies have been operating under existing contracts and investing only the minimum amount necessary to maintain current operations.

¶4. (SBU) If the two sides failed to reach agreement by the 180-day deadline, Magela and Kieffer said, companies would consider alternatives, including (as a last resort) international arbitration. Assuming companies won a case and assuming the GOB honored an arbitral court's finding (both big assumptions), companies would be concerned about the amount and timing of possible settlement payments. Companies have noted that past attempts to pursue arbitration have ended unsuccessfully, citing Bechtel's decision to abandon arbitration earlier this year in favor of reaching a negotiated settlement (ref B).

¶5. (SBU) Comment: Companies' ultimate decisions will likely be shaped by the GOB's flexibility in negotiating new tax rates, providing compensation for forcibly acquired shares, and defining firms' roles under the new contracts. Companies have repeatedly said they do not want to be mere "service" providers, but GOB officials have not accepted their position or offered alternatives. Companies may have to play along for now, despite the absence of a consistent, coherent government plan, while keeping alternatives on the table.
End comment.

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